

Neither Intellectual nor Property

National Basketball Ass'n v. Motorola, Inc., 105 F.3d 841 (2d Cir. 1997).

I

At least in rhetoric, courts have long espoused the ideal that intellectual property law primarily protects incentives for creation, not remuneration for creators, and that property-like entitlements in this area of law are instrumental—not natural—rights.¹ These affirmations, however, have rung somewhat hollow, since courts have rarely, if ever, had to make the hard choice between the incentive and remunerative purposes of intellectual property law in a particular case.²

*National Basketball Ass'n v. Motorola, Inc.*³ presents a rare fact pattern in which the plaintiff's remuneration and the plaintiff's incentives may be separately considered, allowing a court to explore the full ramifications of the incentive logic of intellectual property. The Second Circuit's decision is significant in two principal ways. First, it substantially narrows the scope of "hot news" misappropriation⁴—one of the last bastions of a Lockean labor theory of property⁵ and a perennial *bête noire* of intellectual property incentive

1. See, e.g., *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349 (1991) ("The primary objective of copyright is not to reward the labor of authors, but '[t]o promote the Progress of Science and useful Arts'" (quoting U.S. CONST. art. I, § 8, cl. 8)); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948) (holding that the author's benefit is clearly a secondary consideration) *But cf.* *Dallas Cowboy Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 206 (2d Cir. 1979) (holding that the plaintiff's trademark uniforms were "in the nature of a property right"); *Chemical Corp. of America v. Anheuser-Busch, Inc.*, 306 F.2d 433, 437 (5th Cir. 1962) (holding that in the context of a misappropriation claim the plaintiff had a property right in its advertising slogan). Rather than dwelling on the justifications for the incentive rationale of intellectual property, this Case Note will concentrate on some of the often overlooked ramifications of this logic.

2. The structure of intellectual property doctrines has led courts to protect the creator's remuneration as a proxy for directly protecting her incentives. See *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) (noting that although "[t]he immediate effect of our copyright law is to secure a fair return for an 'author's' creative labor . . . the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good").

Thus, the standard for infringement in intellectual property cases has tended to be injury to the plaintiff's market share or other property-like remuneration, without any direct examination of the plaintiff's incentives for creating the work in the first place. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38 cmt. c (1996); see also *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 556-57 (1985) (holding that in copyright law a finding of market impairment will generally preclude a fair use defense).

3. 105 F.3d 841 (2d Cir. 1997).

4. See *id.* at 852.

5. See JOHN LOCKE, TWO THEORIES OF GOVERNMENT 123-24, 134-40, 143-46 (Thomas I. Cook ed., 1947) (1690) (arguing that one who joins one's labor to an object has a property right in that object as long as "enough and as good" is left for others); cf. Wendy J. Gordon, *On Owning Information: Intellectual*

theorists.⁶ Second, it goes further than any previously reported case by indicating that intellectual property law will not protect a plaintiff's remuneration if the plaintiff's incentives are not thereby protected.⁷ Judge Winter's opinion, without much fanfare, offers a new and promising test for misappropriation, a test which has the broader effect of refocusing courts' attention on the goal of intellectual property: the enrichment of the public domain.

II

In 1996, Motorola began selling "SportsTrax"—a handheld pager that displays continually updated real-time information about NBA games in progress. The SportsTrax technology relies upon a data feed from Sports Team Analysis and Tracking Systems ("STATS") reporters, who watch or listen to television or radio broadcasts of the games and transmit score changes, the team in possession, the time remaining, and other information. STATS also relays this information to an America Online site. The NBA, which is developing a similar product known as "Gamestats," sued, alleging common law misappropriation of its rights in the broadcasts, among other claims.⁸

The district court upheld the misappropriation claim:⁹ "By disseminating to fans the changing scores and leads and other information on a real-time basis, defendants have appropriated the essence of NBA's most valuable property—the excitement and entertainment of a game in progress."¹⁰ The Second Circuit affirmed in part and reversed in part, holding that the Copyright Act of 1976¹¹ preempted the hot news misappropriation claim.¹²

The doctrine of misappropriation—and its hot news variant—originated in the classic case *International News Service v. Associated Press (INS)*.¹³ In that case, Justice Pitney's opinion—employing an agricultural conceit that has caught the fancy of numerous courts and commentators—held that "the defendant in appropriating [this material] and selling it as its own is

Property and the Restitutionary Impulse, 78 VA. L. REV. 149, 208-09 (1992) (explaining that the Lockean logic of property illustrates how a right to remuneration can be derived from a right against harm).

6. See, e.g., Gary Myers, *The Restatement's Rejection of the Misappropriation Tort: A Victory for the Public Domain*, 47 S.C. L. REV. 673, 673 (1996) (stating, in reference to hot news misappropriation, that "[s]ome legal theories, like the proverbial vampire, refuse to die.")

7. See *National Basketball Ass'n*, 105 F.3d at 853.

8. See *National Basketball Ass'n v. Sports Team Analysis & Tracking Sys., Inc.*, 939 F. Supp. 1071, 1080-81, 1085-86 (S.D.N.Y. 1996), *aff'd in part, vacated in part* by 105 F.3d 841 (2d Cir. 1997).

9. See *id.* at 1106.

10. *Id.*

11. 17 U.S.C. §§ 101-1101 (1994).

12. See *National Basketball Ass'n*, 105 F.3d at 853-54.

13. 248 U.S. 215 (1918). INS, a news-gathering service, took AP stories as they were published on the East Coast and transmitted the news by telegraph and telephone to be sold as INS stories on the West Coast. See *id.* at 231. Thus, INS took advantage of the bicoastal time difference to compete with AP, using AP's own material. The copyright law of the time did not allow for a copyright in news stories, so the plaintiffs sought redress in the law of unfair competition.

endeavoring to reap where it has not sown, and by disposing of it to newspapers that are competitors of complainant's members is appropriating to itself the harvest of those who have sown."¹⁴ Characterizing the nature of the plaintiff's hot news remuneration as "quasi-property,"¹⁵ the *INS* Court established a broad, equitable anti-copying doctrine that has developed into the law of misappropriation. Although courts and commentators have struggled to lend definition to the Court's sweeping statement, the tort seems to involve at least the following: (1) the creation of a product by the plaintiff's expenditure of time, labor, and skill; (2) the defendant's use of the product in competition with the plaintiff; and (3) resulting commercial damage to the plaintiff.¹⁶

The precedential value of *INS* has weakened over time, and fact patterns calling for application of the doctrine are relatively rare.¹⁷ Nevertheless, misappropriation has functioned as a useful space in which courts and commentators could debate the philosophy and policy of the "pure" common law of intellectual property, unencumbered by any need to take account of statutory provisions or congressional intent.

III

Hot news misappropriation is one of the few state law misappropriation claims that the Copyright Act of 1976 did not preempt.¹⁸ The Second

14. *Id.* at 239-40.

15. *Id.* at 236. Courts and commentators use the term hot news misappropriation to refer to the following doctrine derived from the broad language of *INS*. Although facts are normally in the public domain, some "hot" facts may be considered to be the quasi-property of their discoverer or creator for a short period of time. *See, e.g.,* *Financial Info., Inc. v. Moody's Investors Serv.*, 808 F.2d 204, 209 (2d Cir. 1986) ("The 'hot' news doctrine is concerned with the copying and publication of information gathered by another before he has been able to utilize his competitive edge.") In *INS*, this quasi-property right lasted only while the news stayed "hot"—that is, until the plaintiffs were able to disseminate the news nationally, at which point the news stories reverted to the public domain. *See INS*, 248 U.S. at 245-46.

16. *See Mercury Record Prods., Inc. v. Economic Consultants, Inc.*, 218 N.W.2d 705, 709 (Wis. 1974); C. Owen Paepke, *An Economic Interpretation of the Misappropriation Doctrine: Common Law Protection for Investments in Innovation*, 2 HIGH TECH. L.J. 55, 68 (1987).

17. *INS* ceased to be strictly binding in 1938 when the Supreme Court's decision in *Erie Railroad Co. v. Tompkins*, 304 U.S. 64 (1938), abolished the general federal common law upon which *INS* was based. State common law misappropriation doctrines sprang up to replace it. *See, e.g.,* *Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp.*, 101 N.Y.S.2d 483 (Sup. Ct. 1950), *aff'd*, 107 N.Y.S.2d 795 (App. Div. 1951) (holding that the plaintiff stated a claim for misappropriation where the defendant sold phonograph records of the plaintiff's uncopyrighted broadcast opera performances), often employing the rhetoric of reaping and sowing. In 1964, however, the Supreme Court indicated that state law doctrines would be preempted to the extent that they conflict with federal intellectual property law. *See Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964).

18. The Act provides that a state law is preempted if (1) the right provided by state law is "equivalent to any of the exclusive rights within the general scope of copyright"—the "general scope requirement", and (2) the subject matter protected by the state law doctrine is a fixed work of authorship that comes within the subject matter of federal copyright—the "subject-matter requirement." 17 U.S.C. § 301 (1994).

Although the Copyright Act makes explicit provision for the survival of state *INS*-type claims, *see* H.R. No. 94-1476, at 132 (1976), *reprinted in* 1976 U.S.C.A.N. 5659, 5748 (providing that the Copyright Act of 1976 should not preempt state law hot news misappropriation claims, since these claims are not equivalent to copyright infringement), it leaves unresolved the breadth of this preemption exception.

Circuit's decision, like those of many other courts,¹⁹ concluded that "only a narrow 'hot-news' misappropriation claim survives preemption for actions concerning material within the realm of copyright."²⁰ Judge Winter's preemption analysis was fairly standard to the extent that it required a state misappropriation claim to contain an "extra element" in order to survive preemption if it was otherwise within the general scope of federal copyright law.²¹ The significance of Judge Winter's opinion inheres in his distillation of the surviving *INS* claim to the following list of elements:

(i) the plaintiff generates or collects information at some cost or expense; (ii) the value of the information is highly time-sensitive; (iii) the defendant's use of the information constitutes free-riding on the plaintiff's costly efforts to generate or collect it; (iv) the defendant's use of the information is in direct competition with a product or service offered by the plaintiff; [and] (v) the ability of other parties to free-ride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.²²

At first, this list appears similar to the various definitions of misappropriation that courts and commentators have proposed over the years.²³ What is groundbreaking, however, is the fifth proposed element: the incentive requirement.²⁴ More precisely—since discussion of incentives is

Preemption concerns are especially pertinent to misappropriation claims, which often function as arguments of last resort. *See* Myers, *supra* note 6, at 691. As the boundaries of other areas of intellectual property law become more clearly delineated, *see, e.g.,* Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340 (1991) (holding that factual compilations lacking even a modicum of creativity do not qualify for copyright protection), there is a danger that plaintiffs may use misappropriation as an end run around the boundaries of federal intellectual property protections.

19. *See, e.g., Financial Info., Inc.*, 808 F.2d at 208-09 (holding that the Copyright Act of 1976 preempts most misappropriation claims but recognizing an exception for hot news misappropriation).

20. *National Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 852 (2d Cir. 1997).

21. *See id.* at 850. Judge Winter here was following the generally accepted analysis as stated in *Computer Associates International v. Altai*, 982 F.2d 693 (2d Cir. 1992). *See id.* at 716 ("[I]f an 'extra element' is required . . . in order to constitute a state-created cause of action, then the right does not lie 'within the general scope of copyright,' and there is no preemption." (quoting 1 MELVILLE NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.01[B], at 1-15 (1996))).

22. *National Basketball Ass'n*, 105 F.3d at 852 (citations omitted).

23. *See supra* text accompanying note 16.

24. The authorities that Judge Winter cites to support this element stop several steps short of an actual incentive requirement. For example, *Financial Information, Inc.*, which he cites, states that "[t]he 'hot' news doctrine is concerned with the copying and publication of information gathered by another before he has been able to utilize his competitive edge" and says nothing about incentives *per se*. *Financial Info., Inc.*, 808 F.2d at 209.

Some authorities have drawn a distinction between primary and secondary markets, concluding that damage to the plaintiff's interest in a collateral product is not sufficient injury to sustain a misappropriation claim. *See, e.g., United States Golf Ass'n v. St. Andrews Sys., Data-Max, Inc.*, 749 F.2d 1028, 1038 (3d Cir. 1984) (holding that a computer company's use of a golf association's mathematical handicapping formula did not constitute misappropriation because "it is inconceivable that Data-Max's business will interfere with the U.S.G.A.'s incentive to maintain or update the handicap formula"); *National Football League v. Delaware*, 435 F. Supp. 1372, 1378 (D. Del. 1977) ("While courts have recognized that one has a right to one's own harvest, this proposition has not been construed to preclude others from profiting from

commonplace in intellectual property law—Judge Winter's groundbreaking move was to separate the incentive requirement from the fourth element, the requirement of competition or injury to the plaintiff's commercial interests. Courts have tended to lump these two requirements together, treating evidence of damage to the plaintiff's commercial interests as an adequate proxy for injury to the creator's incentives.²⁵ In the average intellectual property dispute, this logic of proxy is entirely adequate. Cases requiring courts to distinguish injury to incentives from injury to remuneration are quite rare, since one rarely encounters a fact pattern in which: (1) the plaintiff and the defendant are competitors; (2) the defendant's appropriation of the plaintiff's intellectual property results in damage to the plaintiff's commercial interests; but (3) the plaintiff's incentives for creating and disseminating the good are not substantially affected by the defendant's use.²⁶

In such cases, the intellectual property logic of proxy may lead to overbroad and automatic protection of private remuneration, resulting in the unnecessary impoverishment of the public domain. In these cases, courts should follow the Second Circuit and decline to grant presumptive intellectual property protections to bare entitlements.

IV

The focus on incentives instead of remuneration in *National Basketball Ass'n* gives substance to the rhetoric of intellectual property, in which the primary objective is not to reward the labor of authors, but "[t]o promote the

demands for collateral services generated by the success of one's business venture.") The *National Basketball Ass'n* decision goes further than these precedents. One could conceive of a fact pattern in which the defendant's use of the plaintiff's product interfered with plaintiff's primary market, under *National Basketball Ass'n*, the plaintiffs would still have to prove a substantial threat to their incentives in order to prevail on a misappropriation claim.

25. In addition to the authorities discussed *supra* note 24, other courts and commentators have treated the incentive requirement as identical to the requirement of damage to the plaintiff's commercial interests. In *INS* itself, as Judge Winter notes in his opinion, see *National Basketball Ass'n*, 105 F.3d at 853, the Supreme Court was concerned with the possibility that *INS*'s actions would erode AP's profits until newsgathering would no longer be a feasible undertaking. See *International News Serv. v. Associated Press*, 248 U.S. 215, 240-41 (1918).

26. This factual profile arose in the present case because three different products were involved: the games themselves, the broadcasts of the games, and the factual data gleaned from games in progress. See *National Basketball Ass'n*, 105 F.3d at 853. The product in dispute—the factual data—is essentially a by-product of the first two products. Thus harm to the NBA's commercial interests in the third product is unlikely to result in substantial injury to the NBA's incentives to produce the three products.

This factual profile, although it has been rare until now, is likely to become more common with the increasing momentum of vertical and horizontal integration, as conglomerates seek to defend their profits in secondary by-products. Moreover, occasions of appropriation may become more frequent as advances in technology make it easier for users to appropriate works and products while they are still "hot." After all, in the not too distant past it would have been unthinkable that information could have been copied and disseminated in two different media—on a pager network and on a website—within seconds of the original broadcast. And *INS* itself can be understood as an equitable response to new technology—telephones and telegraphs—to which intellectual property doctrine had not had a chance to respond. See Myers, *supra* note 6, at 687-88.

Progress of Science and useful Arts.”²⁷ Now that some of the unrealized implications of this rhetoric have been fleshed out, we can expect complaints from those who discover that their hold on their supposed intellectual “property” may be more tenuous than they had assumed.²⁸ Even though one can have a rational understanding that property does not arise from labor,²⁹ some perception of injustice may remain in a misappropriation situation.³⁰

It is important to keep in mind that three interests are actually involved in every intellectual property dispute: those of the plaintiff, those of the defendant, and those of the public domain. The bipolar structure of intellectual property litigation sometimes requires that the defendant function as a proxy for the public interest. Thus the morality of the individual defendant and the worthiness of the individual plaintiff may not be as relevant as the net enrichment or impoverishment of the public domain.³¹ The public’s interest in intellectual property law is often invisible, inhering in the boundaries of various doctrines and overshadowed by the parties in infringement disputes. Only by taking account of this hidden interest can we ensure that, under our constitutional system of intellectual property, “[t]he public good fully coincides . . . with the claims of individuals.”³²

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27. U.S. CONST. art. I, § 8, cl. 8.

28. Justice Holmes’s succinct disagreement with the majority in *INS* is still the best response to complaints based on the labor theory of property: “Property, a creation of law, does not arise from value, [which is] a matter of fact.” *INS*, 248 U.S. at 246 (Holmes, J., concurring). Justice Brandeis echoed this insight: “[T]he fact that a product of the mind has cost its producer money and labor, and has a value for which others are willing to pay, is not sufficient to ensure to it this legal attribute of property.” *Id.* at 250 (Brandeis, J., dissenting).

29. Professor Felix Cohen explained the fallacy of the argument that property arises from one’s labor in creating an object of value: “The vicious circle inherent in this reasoning is plain. It purports to base legal protection upon economic value, when, as a matter of actual fact, the economic value of a [product] depends upon the extent to which it will be legally protected.” Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 COLUM. L. REV. 809, 815 (1935).

30. In misappropriation claims, the defendant’s conduct often appears unsavory—“free riding” and “piracy” are common epithets in intellectual property cases. *See, e.g., INS*, 248 U.S. at 231 (“The bill was filed to restrain the pirating of complainant’s news by defendant.”). The plaintiff, on the other hand, may appear as the beleaguered creator, in danger of being stripped of her just deserts due to some technicality in intellectual property law. *See Gordon, supra* note 5, at 279. In some cases, the defendants are independent creators themselves, seeking to take advantage of the cultural and informational resources at hand. *See id.* at 157. One hesitates, however, to attribute such noble motivations to all intellectual property defendants.

31. As Judge Winter points out, “*INS* is not about ethics; it is about the protection of property rights in time-sensitive information so that the information will be made available to the public by profit seeking entrepreneurs.” *National Basketball Ass’n*, 105 F.3d at 853.

Overprotection of individual interests can substantially harm the public domain by barring would-be innovators from the materials of which innovations are made. *See BENJAMIN KAPLAN, AN UNHURRIED VIEW OF COPYRIGHT 2* (1967) (“[I]f man has any ‘natural’ rights, not the least must be a right to imitate his fellows, and thus to reap where he has not sown. Education, after all, proceeds from a kind of mimicry, and ‘progress,’ if it is not entirely an illusion, depends on a generous indulgence of copying.”).

32. THE FEDERALIST NO. 43, at 272 (James Madison) (Clinton Rossiter ed., 1961).